DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SUPPLEMENTAL RECORD REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY
D.T.E. 01-81

Date: February 14, 2003

Witness Responsible: Joseph A. Ferro

DTE-RR Sup. 1-11:

Please refer to page 4 of Bay State's Motion for Clarification. The Company states that "It bears repeating that financial implementation of the GCIM program, with no restrictions in the physical gas purchases, will have no impact on C&I customer prices in the CGAC." What kind of financial impact will such an arrangement have on the Company as compared to the financial impact if the Department's directives restrict the volume of physical gas purchases? What kind of financial impact will financial implementation of the GCIM program, with no restrictions in the physical gas purchases have on the Residential Class as compared to the financial impact on the Residential Class if the Department's directives restrict the volume of physical gas purchases? Please provide numerical examples.

Response: If the Department's directives restrict the volume of physical gas purchases, it would significantly reduce (by about 84%[1]) the gas purchases that would be subject to the GCIM. It's reasonable to deduce that this limit would reduce the potential gains by about 84%. One could expect that the Company's 75% share of potential gains and 100% of potential losses would be the financial impact on the Company. In addition, by limiting the GCIM-allowable volumes of gas purchases, the Company would be required to increase the number of gas purchasing transactions due to the need of separating the limited number of contracts subject to the GCIM benchmark versus the remaining contracts that would be purchased at index prices. This increase in the number of transactions would create

[1] The estimate of an 84% reduction in volumes of gas purchases is based on the annual sendout requirements reflected in the 2002-03 Peak period GAF and was derived as follows:

(a) 25% of domestic purchases (including storage injections of 6.6 Bcf) allocated to serve residential load => 17.5 Bcf x 65.4% to serve Resid. [approx. based on annual allocation of pipeline &storage commodity costs] x 25% = 2.86 Bcf; and

(b) 100% of all domestic purchases => 17.5 Bcf.

Results: 1 – (2.86 / 17.5) = 84%.

an increase in transaction and other administrative costs; such increase in costs however, is very difficult to quantify.

As mentioned above, the financial impact of restricting the physical gas purchases is to limit the potential GCIM gains. Thus, such restriction would simply reduce the potential gains, 25% of which are credited to the Residential Class. It's also reasonable to deduce that the restriction indicated in the Department order would reduce the Residential Class' potential GCIM credits by 84% as compared to a GCIM program that allows for 100% of domestic gas purchases to be subject to the GCIM.

Attachment DTE-RR Sup. 1-11 is a revised version of FCD-1, presenting the gains and losses, reflecting the Department's directive of restricting the gas purchase volumes to 25% of the domestic purchases associated with satisfying residential demand. This schedule essentially shows gains and losses that are 16% (84% reduction) of the gains and losses previously presented in FCD-1.